Brief Description of Financial Terms

For additional information, see the Glossary on page 39 of the Form EIA-28 instructions, available at http://www.eia.doe.gov/emeu/perfpro/form/eia28_instructions_2004.pdf.

Capital Expenditure: Funds (including cash) used by a company to acquire or upgrade physical assets such as property, industrial buildings, or equipment.

Cash Flow From Operations: The amount of cash a company generates from operations, defined as net income after taxes plus depreciation and other noncash expenses.

Development Expenditures: Costs of developmental wells, facilities and support equipment used to access and prepare oil and gas deposits for production.

Exploration Expenditures: Costs of locating oil and gas deposits, including the costs of retaining and carrying undeveloped property, geological and geophysical costs, and the costs of drilling and equipping exploratory wells.

Finding Costs: The per-barrel costs of adding oil or gas proved reserves.

Gross Refining Margin: The difference between the revenue from the sale of petroleum products (e.g., motor gasoline) and the cost of the raw materials (e.g., crude oil) used to produce the products.

Lifting (Production) Costs: See Production Costs.

Net Income: A company's total earnings, or profit. Net income is calculated by taking revenues less the cost of doing business, depreciation, interest, taxes and other expenses. This number is an important measure of how profitable the company is over a period of time.[110]

Net Investment In Place: The sum of long-term assets of the company after adjusting for the age of the assets.

Net Refining Margin: The difference between the gross refining margin and the costs of producing and selling the petroleum products (e.g., refining energy costs and selling costs).

Production (Lifting) Costs: The per-barrel costs associated with the extraction of a mineral reserve from a producing property.

Production Expenditures: The costs of extracting oil and gas from oil and gas deposits.

Profitability: Both of these measures are used to get a balanced look at how a company or an industry is performing in terms of earnings relative to investments. They are also usually compared to other companies within the same industry, or when measuring an industry, to other similar industries. Two of the major measures of profitability are:

- **Return on Equity (ROE):** Net income divided by shareholders' equity. ROE measures performance (i.e, net income) relative to the value of stockholders' equity (retained earnings plus other equity) in the company.

- **Return on Investment (ROI):** Net income divided by net investment in place. ROI measures performance relative to the value of investments **by** the company in property, plant and equipment (PP&E) (long-term capital assets) that are used to engage in its revenue producing operations. ROI can be used to measure the performance of an individual project or business segment within a company.

Reserve Additions: The amount of oil and gas reserves added in a year.

Reserve Replacement Ratio: The amount of oil and gas reserves added in a year divided by the amount of oil and gas produced during that same year.

Reserves-to-Production Ratio: The number of years that oil and gas reserves would last at the current production rate.

Endnote

[110] See the dictionary on Investopedia.com for additional information. Investopedia.com can be found at http://www.investopedia.com (as of December 16, 2005).